



Getting ready for the ECCB's new climate-related and environmental risk requirements

KPMG in Caricom

September 2024

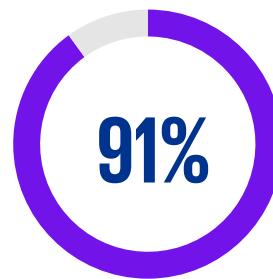
What Eastern Caribbean banks need to know about climate-related and environmental risks

In August 2023, the Eastern Caribbean Central Bank ('ECCB') issued its Prudential Standard on Climate-related and Environmental Risks for Institutions licensed under the Banking Act, 2015 ('the Standard'). It will be applicable to the Banking Acts in Anguilla, Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, Saint Christopher and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

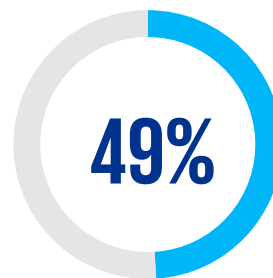
Standard effective as of:
1 March 2024

The Standard seeks to ensure that licensed financial institutions ('LFIs') are better prepared to address risks related to climate change and to be consistent with the Basel Committee on Banking Supervision's ('BCBS') principles for the effective management and supervision of climate-related financial risks, published in June 2022.

Sustainability reporting, including climate-related disclosures, is rapidly evolving. Besides the Standard, major developments are continuing to happen across the world, including the arrival of the first two IFRS® Sustainability Disclosure Standards from the International Sustainability Standards Board ('ISSB'). A recent global benchmarking analysis by KPMG indicates that banks are responding to the demands for greater disclosure of climate-related information, with an increasing volume being reported¹.



Of banks disclose that they have integrated climate-related risks into their credit assessment and monitoring processes¹



Of banks disclose that they have considered climate-related risks when measuring expected credit losses¹

¹KPMG (2024). "Banks' Climate-Related Disclosures; Benchmarking banks' climate-related disclosures in the 2023 reporting cycle"

What Eastern Caribbean banks need to know about climate-related and environmental risks



The role of the Board of Directors

- The Board must consider climate-related and environmental risks and opportunities when developing the LFI's overall business strategy, business objectives, and risk management framework.
- The Board will have ultimate responsibility for understanding the level of climate-related and environmental risks exposure taken by the LFI.
- The Board is responsible for establishing an effective committee for oversight of climate-related and environmental risks.



The role of senior management

- Senior management is responsible for the development and implementation of a strategic plan in relation to climate-related and environmental risks. This includes assigning, and monitoring the progress of, clearly defined performance objectives and responsibilities related to these risks.



Risk management

- LFIs will be required to integrate the identification, assessment and management of climate-related and environmental risks into their overall management strategy.



Stress testing

- LFIs must conduct annual scenario analyses (including stress testing) to assess their resilience to climate-related and environmental risks. This includes both physical and transition risks that are relevant to the business model, exposure profile and business strategy. The scenario analyses must also include timelines over the short, medium and long term.



Disclosure requirements

- In addition to current disclosure requirements for material risks, LFIs must develop climate-related disclosures that align with their approach to managing these associated risks.
- LFIs should disclose (in published financial statements) their approach to managing climate-related risks, in a manner that is clear and meaningful to its stakeholders.



Reporting requirements

- LFIs must submit a detailed report to the ECCB on any material impact of a climate-related or environmental risk event on their capital and liquidity within fourteen days of the event's occurrence.
- In addition, the stress testing framework used by the LFI, and all scenario analyses conducted, must be sent to the ECCB within thirty days of completion.

How KPMG can support

1

Risk identification

- **Exposure assessment:** Identifying key climate and nature-related risk drivers and sensitivities for a portfolio
- **Scenario analysis:** Assessment of an institution's vulnerability to hypothetical climate scenarios

2

Risk integration

- **Risk mapping:** Identification and prioritization of ESG-related risk drivers and mapping to existing risk taxonomies
- **Risk management:** Support in the integration of climate and environmental risk into existing risk management processes

3

Stress testing & scenario analysis

- **Scenario selection** based on regulatory requirements and KPMG's proprietary methodology, where appropriate
- **Physical risk analysis** mapping of appropriate external data
- **Transition risk analysis** focusing on key economic drivers
- **Assessment of the impact** on capital requirements

4

Disclosures

- **Gap analyses and interoperability assessments** for climate and nature reporting under various standards (i.e., ECCB, TCFD, TNFD, GRI, ESRS, ISSB, etc.)
- **Reporting Target Operating Model:** Definition and implementation of robust processes and controls for non-financial reporting

5

Governance

- **ESG (Board) Trainings:** Design and deliver ESG trainings tailored to the needs to the institution
- **ESG Governance Target Operating Model:** Detailing the composition of the management bodies and overall ESG organizational structure



Arnaud van Dijk
Partner, Head of ESG,
KPMG Island Group
[+1 \(345\) 939 7059
avandijk1@kpmg.ky](mailto:avandijk1@kpmg.ky)



Arnold Niranjana
Partner, Enterprise Risk and
Transformation Services,
KPMG in Caricom
[+1 \(868\) 612 5764
aniranjana@kpmg.co.tt](mailto:aniranjana@kpmg.co.tt)



Danica Corbin
Manager, Governance, Risk
and Compliance and ESG
Driver,
KPMG in Caricom
[+1 246 832 2420
danicacorbin@kpmg.bb](mailto:danicacorbin@kpmg.bb)



kpmg.com/socialmedia

Disclaimer

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG Caricom, a St. Lucia company limited by shares and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Document Classification: KPMG Public